

Problems of Financing SMEs in Ghana: A Case Study of Kwahu West and Birim Central Municipalities

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Abstract:

Purpose:

Considered peripheral to economic and public policy in the past, the role of small and medium enterprises (SMEs) has recently been highly recognized as a critical factor in the economic growth and development strategies of countries worldwide. This notwithstanding, SMEs continue to face a myriad of challenges about financing. The study, among others, sought to explore financing challenges facing SMEs in Kwahu West and Birim Central Municipalities of Ghana.

Methodology:

A survey questionnaire was used to collect data from 200 senior officers of SMEs in the selected municipalities. Descriptive statistics, Pearson's correlation, and linear regression statistical techniques were employed in data analysis.

Findings:

The findings indicated that most SMES in both municipalities were sole proprietorships and needed more capacity and expertise to fulfill the requirements for external funding. Also, SMEs need more access to credit, adequate managerial expertise, information asymmetry, and transaction costs. In addition, the findings indicated that size of SME and SME age have a positive and significant relationship with SME financing. Moreover, alternative funding sources, including equity sources provided by the alternative market of the Ghana stock exchange, were identified.

Implication:

The study concluded that although the financing challenges are real and numerous, stakeholder engagements and general governmental support can help push the growth and sustainability of SMEs. It was recommended that the National Board for Small-Scale Industries compile a register of all SMEs in the country and provide a platform for publishing their annual financial reports.

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INTRODUCTION

The role of Small and Medium Enterprises (SMEs) has, in recent times, been well-acknowledged around the world. Hitherto considered peripheral to economic and public policy, the role of small and medium enterprises (SMEs) is currently recognized as a critical factor in the economic growth and development strategies of many countries worldwide. There is, therefore, a significant increase in interest and support programs for Small and Medium Enterprises (SMEs) across the World (Blackburn, 2016). SMEs have been recognized as a medium for developing entrepreneurial skills and promoting private business ownership. These businesses have also been credited for employment creation in many economies, assisting in diversifying economic activities and contributing to trade and exports.

It is believed that even in developed industrial economies with large multinationals, SMEs, rather than large multinationals, are the largest employer of their workforce (Abor & Quartey, 2010). The World Bank (2020) indicates that about 90% of businesses fall in the SME category, employ more than 50% of the world's workforce, and account for up to 40% of national income (GDP) in emerging economies. In Ghana, SMEs have been recognized as key contributors to the country's economic growth and transformation into a middle-income economy. SMEs' contribution to the country's GDP is about 70%, accounting for about 92% of businesses. The sector's role in employment generation has also been recognized as pivotal, employing about 85% of the country's manufacturing sub-sector (Abor & Quartey, 2010). Even with their role and contributions, SMEs in the country are confronted with teething challenges, one of which is the issue of financing.

The World Bank (2020) indicates that access to Finance is the second most cited constraint of SME growth in developing countries. For instance, in Sub-Saharan Africa, SMEs need more access to credit facilities and other financial services of formal financial intermediaries. For example, Basu, Blavy, and Yulek (2004) assert that only about 5-6 percent of the population has access to the banking sector in Ghana and Tanzania. Consequently, as a source of equity, most SMEs save from the little income generated to leverage the Enterprise. In addition, some borrow or fall on gifts from friends and relatives to augment their source of funds.

Other sources are from remittances from close relations abroad. Debt financing in Ghana is primarily obtained from commercial banks whose requirements for lending to SMEs remain challenging for these small businesses. Seeking funds from such sources typically requires that the SME can demonstrate its managerial credibility and competency to manage risks associated with its business, provide evidence of prospects and sustainability of the business, and provide adequate assurance to the lender of the necessary returns by way of repayments (Fraser et al., 2015).

As a result of information asymmetry on both sides, banks, and other non-bank financial institutions typically will need to be satisfied with the loan seeker's capability, establish a transparent relationship on mutual trust, as well as a workable monitoring system with the loan seeker (Cook & Nixon, 2000). Thus, lenders dwell on the creditworthiness and viability of a client's business. Many SMEs are denied access to funding from these institutions due to poor record-keeping and accounting practices, among others. The SMEs are considered more risky by these financial institutions, who would have to incur increased business risks and transaction costs if they should lend to them. The banks, therefore, tend to request collateral to mitigate the risks; unfortunately, for most SMEs, the collateral is woefully inadequate (Tagoe et al., 2005).

The World Bank (2020) estimates 600 million jobs will be needed by 2030 to absorb the growing global workforce. Therefore, SMEs need enhanced access to funding to improve access to advanced technology for improved operations, quality human resources for efficiency and increased productivity, and expansion of business operations to create more jobs. Several empirical studies that identified financing as a significant constraint of SME growth in developing economies have made varying recommendations (Baldock & Whittam, 2008; Akorsu & Agyapong, 2012; Prempeh, 2015), yet SMEs continue to encounter this significant challenge. Therefore, This study looks at the challenge of financing among SMEs in the country, focusing on two different municipalities, Kwahu West and Birim Central. The study explores the nature and characteristics of SMEs in the selected area and assesses the current situation regarding their financing.

Problem Statement. Globally, many economies have given recognition to the role of Small and Medium Enterprises (SMEs) such that they are considered a critical factor in their economic growth and development strategies. It is believed that SMEs, rather than large multinationals, are the largest employers of the world's workforce (World Bank, 2020). In Ghana, SMEs have been recognized as key contributors to the country's economic growth and development, accounting for about 70% of the country's GDP, 92% of businesses in the country, and about 85% of the country's manufacturing sub-sector (Abor & Quartey, 2010).

Given this, successive governments have rolled out schemes intended to promote the SME sector and find solutions to some of its key challenges, including access to financing. The schemes, mostly state-initiated with some donor support, have mainly used debt and equity financing. There are, however, some schemes that were from international origins. Some schemes include Ghana Investment Fund, Business Assistance Fund, Export Development and Investment Fund, NBSSI Loan Revolving Fund, Venture Capital Trust Fund, Bank Loans, and Fidelity Equity Fund. And Australian Import Program. These schemes notwithstanding, the challenges SMEs face with financing persist. This is because most of the schemes are debt in nature and require collateral before accessing it. Secondly, the schemes are noted solely for SMEs; thus, the SMEs tend to compete with some well-organized private firms who easily qualify for the funds. Thirdly, the schemes are primarily biased towards import-oriented businesses, thus depriving many SMEs in other sectors. Thus, the prospects for SMEs to access financing through these schemes have virtually become non-existent.

The problems of the SMEs are only partially a result of the method of operations of the various schemes established over the period. Some studies indicate that most Ghanaian SMEs need the requisite managerial acumen and competent human resources to manage their affairs effectively. For example, it has been observed that the majority needs more professionals with the know-how to prepare financial reports on the SME's business activities, thus depriving them of meeting an essential requirement (audited financial statement) for accessing credit. Sometimes, it is a lack of or inadequate collateral (Kwarteng, 2009), information asymmetry, or transaction costs. (Marwala & Hurwitz, 2017). Thus, several factors tend to make SMEs least attractive for credit due to their characteristics or lender requirements.

Several studies have been carried out in the past, many of which have pointed out that the issue of ease of access to financing remains a significant problem for SME growth in the country (Arthur, 2016; Mensah, 2004). These studies were, however, focused on particular areas of the country. For instance, Arthur (2016) focused on SMEs in Kumasi, and Prempeh (2015) focused on SMEs in Sunyani. However, more literature on SME financing problems must be covered in the Kwahu West and Birim Central municipalities. This study, therefore, seeks to add to the body of knowledge on challenges facing SMEs in Ghana by examining the current situation with Kwahu West and Birim Central municipalities while simultaneously comparing their unique characteristics.

METHODS

Research Design. The research design, according to Rubin and Babbie (2016), is the blueprint for the study. The study's goals typically determine the type of design to be adopted. The study will adopt descriptive and exploratory design as the study seeks to describe situations and draw conclusions from the data gathered. The strategy to be used to collect data is a survey. A survey typically involves the structured collection of data from a large population. Three main approaches to social science research have been cited in the literature. These are the quantitative, qualitative, and mixed-method approaches (Rubin & Babbie, 2016). The mixed method approach, a combination of quantitative and qualitative methods, will be applied to this study. Adopting this approach will allow data integration from quantitative and qualitative sources at one stage of the research process. According to Creswell (2014), the mixed method assists in acquiring a better understanding of a phenomenon than applying a single approach and allows for data triangulation.

Population. The population of a study is a collection of elements from which samples are usually selected for the study. Usually, the population has shared characteristics among its elements (Ott & Longnecker, 2015). The population for this study comprises all enterprises in the Kwahu West and Birim Central municipalities.

Data Collection Instruments. The questionnaire is the main instrument to be used for data collection for the study. The choice of this instrument results from the large sample size being considered and the instrument's capacity to reduce biases on the part of the researcher. The questionnaire will be mainly closed-ended with a few open-ended questions to collect qualitative data. To ensure an effective data collection process, permission will be

sought from the leadership of the sampled enterprises for access to identified officials for the administration of questionnaires. The 'drop-and-pick' approach, which allows respondents ample time to fill out the questionnaires, was adopted to allow adequate time to answer the questions. The respondents were given five days, after which the filled questionnaires were collected.

Sampling Procedure. Lawal (2014) describes a sample as the portion of a population usually selected for a study because using only some of the population may be practical. For this study, a non-random sampling technique, the convenience sampling technique, will be applied to select the population sample. This is necessary because the sample must comprise only enterprises in the SME category. The convenience sampling technique involves selecting a sample based on the readiness and willingness of people who want to partake in the study (Saunders et al., 2016). Two hundred respondents from the two municipalities were selected for the study. This comprises four senior executives from all participating entities in the two districts.

Variable Measurement and Model Specification. Based on the study's conceptual framework, SME Financing will be the dependent variable. The SME financing challenges of information asymmetry, access to short-term credit, managerial expertise and transaction cost, and size of SME will be used as the independent variables. Section 'C' of the questionnaire provides data for the dependent variable, while section 'D' provides data for the independent variables.

The following model is formulated for the study:

The regression model and the variables used are given below:

$$SMEFIN = \beta_0 + \beta_1CREDIT + \beta_2INFO + \beta_3MEXP + \beta_4TCOST + \beta_5SIZE + e$$

Where:

SMEFIN = SME financing

CREDIT = Access to Short/Long term credit INFO = Information Asymmetry

MEXP = Managerial expertise TCOST = Transaction cost

SIZE = Size of SME, based on number of employees

β_0 = Constant represents SME financing when every independent variable is zero.

$\beta_1 - \beta_5$ = The Coefficient in which every marginal change in variables on SME financing affects correspondingly.

e- The error term

Reliability and Validity of Data. A study is reliable if it leads to the same findings and conclusions when replicated (Nardi, 2015). Thus, the assessment tools applied for research must produce dependable and consistent results each time they are replicated, given that the same variables are used. The study will apply Cronbach's alpha to measure the reliability and internal consistency of the questionnaire. The content and contextual validity proposed by De Bruin et al. (2005) and Bryman (2012) was adopted. This assisted in measuring the extent to which the data collected is representative of the population and the level of credibility of the study's outcome (Bryman, 2012). As Gray (2013) suggested, the study also applied data triangulation to ensure validity, as quantitative data will be matched with qualitative data where necessary.

Data Processing and Analysis. The unrefined data collected from the respondents were cleaned, coded, and organized for analysis. Descriptive statistics were employed to analyze and summarize the quantitative data gathered. Pearson's correlation was used to ascertain the relationship between SME characteristics (Size and SME age) and SME funding challenges. A linear regression analysis was also employed in analyzing data to observe the relationship between SME challenges and SME financing. The processing and analyzing of the quantitative data

was done with the assistance of Microsoft Excel 2013 and the Statistical Package for Service Solution (SPSS 26) data analysis tools.

Ethical Considerations. Ethical considerations are integral to social science and other research projects. To conform to ethical standards, Bryman (2012) suggests that researchers must consider issues bordering on consent, harm, anonymity and confidentiality, objectivity, and voluntary participation. Thus, for this study, the researchers ensured that all participants voluntarily, knowledgeably, and explicitly provided their consent. The study avoided issues that could cause harm, and participants were not coerced to participate. The study also guaranteed anonymity and confidentiality. The study is also structured to avoid bias in its design and interpretations.

RESULTS AND DISCUSSION

Demographic profile of respondents. The proportion of males and females in the sample of the study. The results indicated that male respondents were above half of the total sample. This represents 114 (57%) of the total sample, and the remaining 43 (86%) were female. Thus, there were more male participants in the study than females. Out of the total sample of 200 respondents, 96 (48%) were within the age range of 31-45; 66 (33%) were within the age range of 46 – 55; 34 (17%) were within the 18 – 30 age group; and 4 (2%) were over 55 years. Thus, the majority of the respondents were over 31 years old. The age distributions, therefore, indicate that most of the respondents are mature adults.

Also, 86(43%) of the respondents had SHS as their highest educational attainment; 52 (26%) had JHS as their highest educational attainment; 32 (16%) had HND or Degree; and 30 (15%) had primary as their highest educational attainment. Thus, the majority of the respondents had no tertiary-level formal education. Moreover, the position of the respondents, of which 156 (78%) were owners, 40 (20%) were top-level managers, and 4 (2%) were middle-level managers. Most respondents were managers of businesses with in-depth experience to contribute to the study.

Characteristics of SMEs in Kwahu West and Birim Central municipalities. The legal status, age, sector, number of sites (branches), employees (size), and the value of assets were used to understand the characteristics of the selected SMEs. The study indicates that 79% of SMEs are sole proprietorships, 8% are private limited companies, 8% are partnerships, and 6% are entities limited by shares. Thus, most entities in the two municipalities are Sole Proprietorships. These businesses are typically owned and run by a single individual. Therefore, there is no legal discrimination between the entity and its owner. This result is in line with the findings of Lamptey (2020), which suggests that most businesses in Ghana are sole Proprietorships. The results also show that 46% of the entities have existed for 6 to 10 years, 22% for 1 to 5 years, 17% for 11 to 20 years, and 15% for less than a year. Thus, the majority of the SMEs in the two municipalities have been in operation for more than five years.

On the number of sites of the entities, the results show that 38% of the SMEs operated from 3 sites, 31% from a single site, 21% from 2 sites, and 10% from 4 sites. Using the number of employees as a measure of the size of the SMEs, the results show that 59% of the entities had 1-9 employees, 23% had 10-19 employees, 9% had 20-29 employees, and another 9% had 30 employees or more. Thus, most entities fall under the micro and small-scale entities, and a few are medium-scale entities. Also shown in Table 2 is the summary of responses on the estimated value of fixed assets of the SMEs, excluding their lands and buildings. From the table, 87% of the SMEs had estimated asset values of less than GH¢1,000,000; 6% had GH¢ 1,000,001 to GH¢ 3,000,000; 8% had GH¢ 5,000,001 to GH¢ 7,000,000; and 3% had GH¢3,000,001 to 5,000,000.

In the sector of operation of the SMEs, Table 2 shows that 40% are in the agriculture sector, covering farming, agro-processing, and food production/processing. The result also shows that 38% are in the Service sector, covering telecom, tourism, transport, banking, insurance, retail, and wholesale operations. It also shows

that the operations of 22% of the SMEs are in the industrial sector, which covers manufacturing, mining, and oil or gas production. Figure 2 provides details on the primary activities of the SMEs. From the figure, the primary activities engaged in by most of the SMEs included mechanic and vehicle spraying (15), transport (13), supply of building materials (12), sewing (12), carpentry works (12), wholesale and retail of provisions (11), baking (11) and farming (11). The figure shows that mining (5) and savings and loans (2) were the minor primary activities engaged in by respondents in the two municipalities.

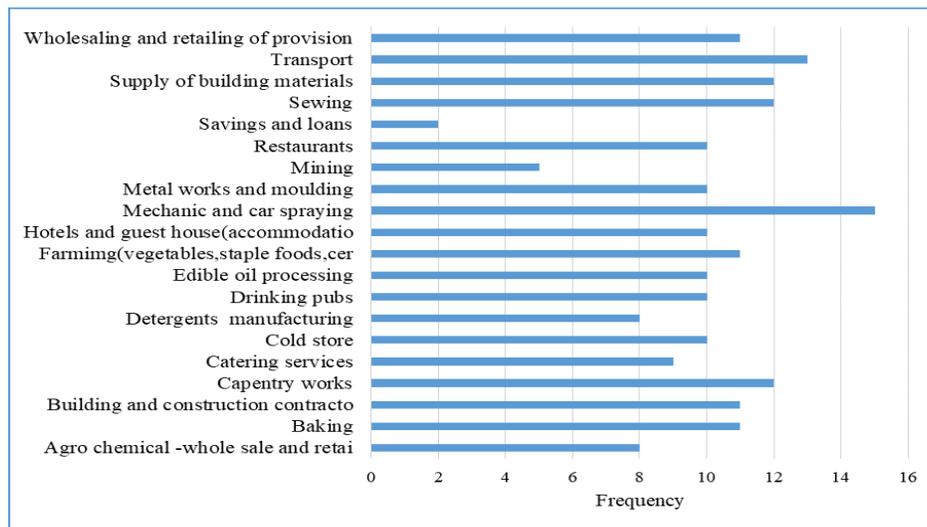


Figure 1. Primary activities of respondents

SME Financing Assessment- Staff and owners' perspective. This section provides the results of examining SME financing among SMEs in the selected municipalities. The descriptive analysis was employed in the analysis of the responses, adopting mainly the mean and standard deviation. The staff and owners of the SMEs were asked to select responses ranging from 1 (strongly disagree) to 5 (strongly agree) on a 5-point Likert scale questionnaire. The mean scores indicate the average of the individual responses to the items in the questionnaire, while the dispersion in the responses is indicated by the standard deviation (SD). A lower standard deviation points to the closeness of the responses to the mean, and a higher score of standard deviation the extent of dispersion of the responses to the mean. A general argument is therefore made based on the high/low mean scores and standard deviation. A summary of the results is shown in Table 1.

Table 1. SME Financing

Item	Mean	Std. Dev.
My company gets funding from the Local SME support organization	1.37	.596
The shareholders/owners regularly provide additional funds	3.83	.886
It is easy for my company to source funding from financial institutions	3.15	1.12
My business is ready for joint venture arrangements for funds	3.00	.839
My company uses trade credit as a financing source	3.19	.882
My company has always met the requirements of external financing sources, including banks	2.95	.955

My company has accessed external Finance in the last three years

2.52

.891

From Table 1, the mean score for item 2 was 3.83, and a standard deviation of .88602. The mean score, approximately four on the Likert scale, shows that the shareholders or owners of the SMEs regularly pump additional funds into the business for its operations. Item 3 had mean = 3.15 and SD = 1.12. This shows that the respondents needed clarification about whether it is easy for their entities to access loans from banks and other financial institutions. The standard deviation indicates that the responses were more dispersed from the mean. The mean of 3 and SD of 0.84 for item 4 also show that the respondents were undecided in their responses on whether their entities are ready to enter into a joint venture agreement for funds to undertake a project.

Also, for item 5, the mean of 3.19 and SD of 0.88 indicate that the owners and staff of the SMEs needed to be sure trade credit was used as an option for their operations. The mean is 2.95, and the standard deviation is .955026 shows that the respondents were still determining whether their entities always met the requirements from external financing sources, including the banks. This implies that the entities most often needed to meet funding requirements. Item 7 had mean = 2.5 and SD = .8908, indicating that the respondents disagree that they accessed external Finance in the last three years. The respondents also strongly disagree that their entities obtain funds from local SME support bodies. These responses imply that SMEs need more external funding assistance in both municipalities (mean = 1.37; SD = .59571).

Financing challenges confronted by SMEs. The results of the descriptive analysis of the challenges, which have been grouped into access to credit, information asymmetry, managerial expertise, and transaction costs, are presented in this section.

Challenges of Access to short/long term Credit. Table 2 shows the results of the descriptive analysis of the challenge of access to credit among SMEs in the municipalities. From the table, the mean of item 1 is 3.66, with a standard deviation of .5883. Thus, the mean is approximately four on the Likert scale, indicating that the respondents agree with the statement that their respective SMEs earn enough proceeds from their operations to fund their annual expenses. This implies that the SMEs strive to generate more revenue for their operations. With mean = 3.69 and SD = .5964 for item 3, the respondents agree they can secure short-term loans from lending institutions when required. This implies that the SMEs have an idea of the availability of such facilities at the financial institutions, and given that they meet their requirements, they can access such credits. However, the mean score of 2.78 and SD of .8575 for item 2 indicates that the respondents still determine if their entities can get long-term credit from the institutions providing financing. This implies that the respondents need clarification about long-term funding facilities available for SMEs at financial institutions.

Table 2. Access to short/long-term credit

Item	Mean	Std. Deviation
We generate adequate income to support our annual operations	3.66	.5883
We are capable of contracting long-term credit when required from financial institutions	2.78	.8575
When required, we can contract short-term funding from financial institutions	3.69	.5964
Our business entity attracts extra shareholders with fresh capital whenever necessary	2.34	.7397

Also, from Table 2, the mean of 2.34 and SD of .7397 for item 4 shows that the respondents disagree that their SMEs attract additional funding (capital) from new shareholders whenever necessary. This may be attributed to the fact that most SMEs are sole proprietorships or privately owned, thus, unable to attract such funding. The

responses, therefore, indicate that most SMEs rely heavily on their income generated and, in some instances, some form of short-term credit from financial institutions.

The challenge of Information Asymmetry. Table 3 presents the descriptive analysis of the financing challenge of information asymmetry among the SMEs. The mean of 2.54 and SD = .85561 for item 1 shows respondents were uncertain that SMEs always secure information on best deals regarding credit provided by financial institutions, including banks.

Table 3. Information asymmetry

Item	Mean	Std. Dev.
We always secure information on the best deals on credit from funding institutions	2.54	.8556
Our business entity is capable of securing superior interest rates than market rates for working capital	2.45	.8551
We constantly publish our organization's financial data for public consumption	2.21	.9220

Also, from Table 3, The respondents disagree that their entities can bargain for better interest rates than prevailing market rates regarding working capital credit (mean =2.45; SD = .8551). The respondents also have differing views that the SMEs always publish financial information about their entities to the public. The responses imply that there needs to be more financial information on the SMEs to the public as they do not publish such information. All the responses point to the fact that the SMEs and the financial institutions have information the other party needs to be privy to. This information asymmetry, therefore, creates a challenge for SME funding.

The challenge of managerial expertise. The descriptive analysis of responses to the challenge of managerial expertise is shown in Table 6. From Table 4, the mean for item 1 is 3.66, with an SD of .653. The mean, approximately four on the Likert scale, shows that respondents agree that SMEs have skilled and competent managers for efficient working capital management in their entities. The mean of 3.62 with an SD of .5978 shows that the respondents agree that their managers have the requisite experience to manage their finances efficiently. The mean score of 3.79 and SD of .5360 also indicate the respondent's agreement with the statement that the competence of the managers of the SMEs has contributed to better performance among the SMEs. These responses imply that the SMEs in both municipalities are fine regarding managerial competencies.

Table 4. Managerial expertise

Item	Mean	Std. Dev.
The company has skilled and competent managers to manage its working capital efficiently	3.66	.653
Management of the entity has the requisite experience for efficient management of its finances	3.62	.598
The competence of our management is a significant contributory factor for improved performance of the SME	3.79	.536

The challenge of transaction costs. The summary of responses on the challenge of transaction costs is presented in Table 5. From the table, the mean for item 1 is 1.62, with a standard deviation of .859. This shows that the respondents disagree that SMEs spend funds on a search for premium market rates when they need funding. The mean of 1.52 and 0.642 SD for item 2 indicates disagreement of respondents about the statement that SMEs spend funds to "facilitate negotiations, develop contracts, and follow up contract fulfillment." The respondents agreed with the statement (item 3) that it costs SMEs money regarding interests, legal, and other fees

related to credit for working capital (mean = 3.79; SD = .625). Item 4 shows a mean and standard deviation of 1.28 and .450, respectively.

Table 5. Transaction costs

Item	Mean	Std. Dev
Whenever we intend to secure credit, we spend money on searching for premium market rates	1.62	.859
Whenever we intend to secure credit, we spend money on negotiations, contract development, and contract fulfilment	1.52	.642
Whenever we source funding for working capital, we typically spend money on fees, interest, taxes, inflation, and other credit-related charges	3.79	.625
Our organization, at some point, paid a bribe before accessing credit.	1.28	.450
The company and its products/services are not well known, and this affects the cost at which it borrows from the bank	3.77	.549

This shows that respondents strongly disagree that SMEs have, at some point, paid a bribe for access to credit. With a mean score of 3.77, which is approximately four on the Likert scale, and an SD of 0.549, the respondents agree that the cost at which SMEs borrow from the banks is usually affected negatively because the entity and its products may not be well known. The responses imply that the SMEs incur some transaction costs, which pose a challenge for accessing bank financing. However, the SMEs do not pay bribes nor incur costs in search of the best interest rates for credit.

Correlation Analysis. This study used the Pearson correlation matrix to establish the relationship between the dependent variable of SME financing (SMEFIN) and access to short/long term credit (CREDIT); information asymmetry (INFO); managerial expertise (MEXP); transaction cost (TCOST), and size of SME, based on number of employees (SIZE) (independent variables). The results of the analysis are shown in Table 8.

The results of the correlation analysis from Table 6 show that the SIZE of the SME, as measured by the number of employees, has a positive and significant relationship with SME financing at a 5% significance level. Thus, increases in staff strength of the SME also increase its capacity to access funding. Also, SME age, which indicates the number of years of experience the entity has, has a positive and significant correlation with SME financing at the 5% significance level. This implies that as SMEs grow older with increases in employee numbers, they gain some experience that also improves their financing.

Table 6. Correlation Analysis

		1	2	3	4	5	6	7
1. SME Financing	Pearson Correlation	1						
	Sig. (2-tailed)							
2. Access to Credit	Pearson Correlation	-.208**	1					
	Sig. (2-tailed)	.003						
3. Information Asymmetry	Pearson Correlation	-.414**	.075	1				
	Sig. (2-tailed)	.000	.291					

	N	200	200	200			
4. Managerial Expertise	Pearson Correlation	-.241**	.077	.283**	1		
	Sig. (2-tailed)	.001	.281	.000			
	N	200	200	200	200		
5. Transaction Costs	Pearson Correlation	-.361**	.147*	.047	-.335**	1	
	Sig. (2-tailed)	.000	.038	.513	.000		
	N	200	200	200	200	200	
6. SME Age	Pearson Correlation	.543**	-.140*	-.387**	-.256**	-.334**	1
	Sig. (2-tailed)	.000	.048	.000	.000	.000	
	N	200	200	200	200	200	200
7. Size	Pearson Correlation	.324**	.009	-.493**	-.476**	.246**	.308**
							1*

** Correlation is significant at the 0.01 level (2-tailed) and * 0.05 level (2-tailed).

Also from Table 6, the results of the Pearson correlation indicated that there was a strong negative linear relationship between SME financing and access to credit ($r = -0.208$, $n = 200$, $p = 0.003$); SME financing and information asymmetry ($r = -0.414$, $n = 200$, $p = 0.000$); SME financing and managerial expertise ($r = -0.241$, $n = 200$, $p = 0.001$); and SME financing and transaction costs ($r = -0.361$, $n = 200$, $p = 0.000$). Thus, as SME financing improves, the challenges of access to credit, information asymmetry, managerial expertise, and transaction costs decrease and vice versa.

The results of the correlation analysis from Table 6 show that the SIZE of the SME, as measured by the number of employees, has a positive and significant relationship with SME financing at a 5% significance level. Thus, increases in staff strength of the SME also increase its capacity to access funding. Also, SME age, which indicates the number of years of experience the entity has, has a positive and significant correlation with SME financing at the 5% significance level. This implies that as SMEs grow older with increases in employee numbers, they gain some experience that also improves their financing.

Also from Table 8, the results of the Pearson correlation indicated that there was a strong negative linear relationship between SME financing and access to credit ($r = -0.208$, $n = 200$, $p = 0.003$); SME financing and information asymmetry ($r = -0.414$, $n = 200$, $p = 0.000$); SME financing and managerial expertise ($r = -0.241$, $n = 200$, $p = 0.001$); and SME financing and transaction costs ($r = -0.361$, $n = 200$, $p = 0.000$). Thus, as SME financing improves, the challenges of access to credit, information asymmetry, managerial expertise, and transaction costs decrease and vice versa.

Results of regression analysis between dependent variable and predictors. Table 7 shows the proportion of the variation in the dependent variable (SME financing) explained by variations in the independent variables. The R-value of 63.7% shows a significant correlation between the dependent and independent variables. Although the model is statistically significant given the p-value of 0.000, as shown in Table 10, the regression model's R Square value of 0.405 indicates that the predictors explain only 40.5% of the dependent variable. As shown in Table 12, the model has no multicollinearity problem, as the tolerance values of the predictor variables are all greater than 0.10, and the VIF values are less than 10.

Table 7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637a	.405	.390	2.07871

Predictors: (Constant), Access to Credit, Transaction Costs, Information Asymmetry, Managerial Expertise, Size of SME
Dependent Variable: SME Financing

The Analysis of Variance (ANOVA) is used to determine the fitness of the regression model in terms of its ability to predict the dependent variable best. From Table 8, the model is significant because the p-value of 0.000 is less than 0.05. With this, the model's validity in predicting the dependent variable, SME financing, is strengthened.

Table 8. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	571.700	5	114.340	26.461	.000 ^b
	Residual	838.280	194	4.321		
	Total	1409.980	199			

a. Dependent Variable: SME Financing

b. Predictors: (Constant), Access to Credit, Transaction Costs, Information Asymmetry, Managerial Expertise, Size of SME

Table 9. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	36.602	2.502		14.630	.000		
Access to Credit	-.234	.122	-.109	-1.921	.056	.957	1.045
Information Asymmetry	-.375	.118	-.208	-3.173	.002	.715	1.398
Managerial Expertise	-.514	.155	-.220	-3.320	.001	.700	1.428
Transaction Costs	-.757	.100	-.466	-7.589	.000	.811	1.232
Size of SME	.639	.194	.233	3.284	.001	.609	1.641

a. Dependent Variable: SME Financing

The coefficients in Table 9 show the significance of individual independent variables. The table shows that the information asymmetry, managerial expertise, and transaction costs have statistically significant p-values with negative regression coefficients. That is, -375 and p-value of $0.002 < 0.05$; -.514 and p-value of $0.001 < 0.05$; and -.757 and p-value of $0.000 < 0.05$ respectively. The negative regression coefficients indicate that these variables hurt SME financing. Access to credit was also found to have a negative regression coefficient. However, it has a p-value of 0.056, more significant than 0.05. Also, from the table, the size of SME was found to be statistically significant as its p-value of 0.001 is less than 0.05. Its beta value of .639 shows that it positively impacts SME

financing. Thus, a unit increase in this variable would lead to a significant increase/improvement in SME financing by 63.9%. Based on the unstandardized regression coefficients, the equation for the regression model is given as:

$$\text{SMEFIN} = 36.602 - .234 * \text{CREDIT} - .375 * \text{INFO} - .514 * \text{MEXP} - .757 * \text{TCOST} + .639 * \text{SIZE} + e$$

SME Preparedness and other funding opportunities. This section responds to the assessment of the preparedness of the SMEs as well as their awareness of other sources for financing their business operations. The empirical literature suggests that factors such as age, size, profitability, and growth, among others, influence SMEs' demand for and access to Finance (Degryse et al., 2012). Question 14 of the questionnaire, therefore, sought to ascertain the profit performance of the SMEs for the past year, taking into account all sources of income. A summary of the responses is shown in Figure 3, with 64% of the respondents indicating that their SMEs posted profits in the last year, 27% indicating break-even, and 9% a loss. Thus, the majority of the SMEs showed signs of profitability. This suggests that most of the SMEs have the potential to access external funding for their operations. It also implies that the SMEs already accessing funds from the financial institutions have promising indicators of their capacity to repay their loans and may also qualify for better offers in the future.



Figure 2. SME Profit performance in the past year

Accessing external funding from banks and other financial institutions also requires that SMEs have a comprehensive business strategy that can be evaluated. Question 15 of the questionnaire, therefore, sought to ascertain whether the SMEs in the two municipalities possess business plans that are up to date with their strategic goals. A summary of the responses, as shown in Figure 4, indicates that most SMEs have no business plan, 30% have a business plan that is kept to date, and 10% have a business plan that still needs to be updated. This implies that the preparedness of most SMEs in the municipalities for access to external funding needs to be improved. However, the few SMEs with business plans that are up to date are in an excellent position to qualify for external financing since it assists with credit appraisals, especially for the viability of the entity's future operations.

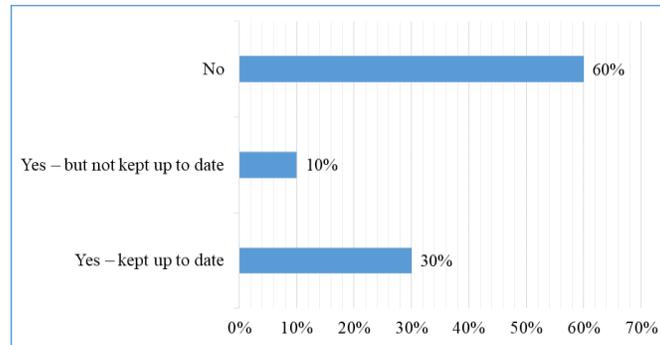


Figure 3. SMEs with a business plan

Awareness of SME financing opportunities other than bank loans. Question 40 of the questionnaire sought responses from participants on whether they had any idea of other funding opportunities in the country for their business and to state them. A summary of the responses is shown in Figure 4.

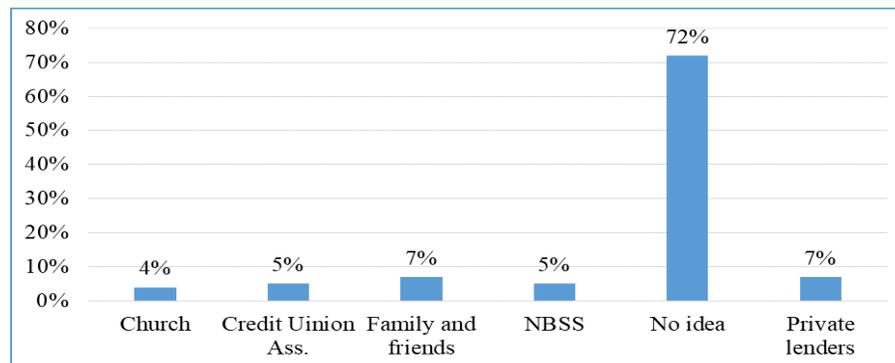


Figure 4. Other sources for SME funding

From Figure 4, 72% of the respondents indicated that they had yet to learn of the availability of funding opportunities other than bank credits. Thus, the remaining 28% know other funding opportunities exist for SMEs. In stating the ones they know of, 7% of the respondents stated private lenders, 7% stated family and friends, 5% stated NBSSI, 5% stated credit union associations, and 4% stated church. This implies that owners of the SMEs belong to such groups that operate some self-help financing schemes that assist members with funding.

The responses also indicate that the SMEs in the municipalities under consideration are not privy to other established financing options, such as the Ghana Venture Capital Trust Fund (GVCTF), established in 2004 to provide SME financing. It also implies that the SMEs need to be made aware of equity financing opportunities provided through the Ghana Alternative Exchange (GAX), established in 2013 for start-up companies and Small and Medium Enterprises (SMEs). Operated by the Ghana Stock Exchange, the GAX has reduced listing requirements and procedures and other waivers seeking to attract listed SMEs. However, a few respondents were aware of the National Board for Small-Scale Industries, which also supports registered SMEs with access to funding. Akorsu and Agyapong (2012) have also suggested that SMEs develop SMEs Network Fund as an alternative funding source to finance their activities. This is expected to be a self-managed fund by SMEs with no collateral requirements for members offered credit from the fund.

Government support for SME development has also been highlighted in extant literature. The respondents were explicitly asked to indicate whether they require government support and in what form. A summary of the responses on whether SMEs need government support is shown in Figure 6, of which 78% of the respondents stated "Yes" and 22% stated "No." This implies that the majority of the SMEs require government support. However, government support may take various forms, and depending on the needs of an SME or a particular industry, such support might not be practical. The respondents were, therefore, asked to state the form of support needed from the government.

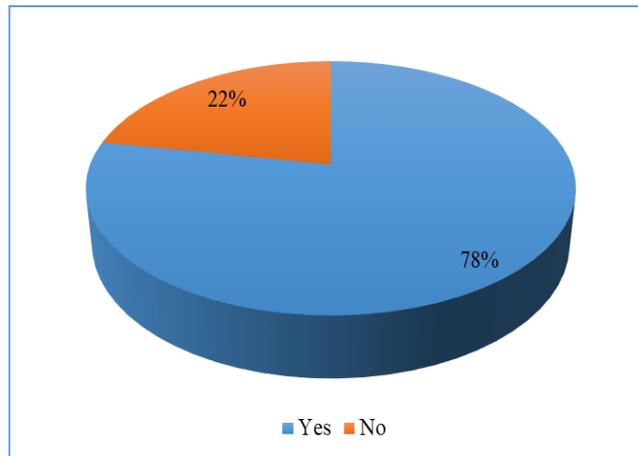


Figure 5. Need for government support

Figure 5 summarizes responses on the type of government support SMEs in the municipality need. From the figure, 29% of the respondents stated financial (cash) support, 22% stated import tariffs to protect local products, 17% stated tax reduction, 10% stated lower interest rates, 6% stated proper regulations, 4% stated training, 4% stated ready market, 4% stated machinery support and another 4% stated creation of more jobs to increase purchasing power of citizens to patronize their products/services.

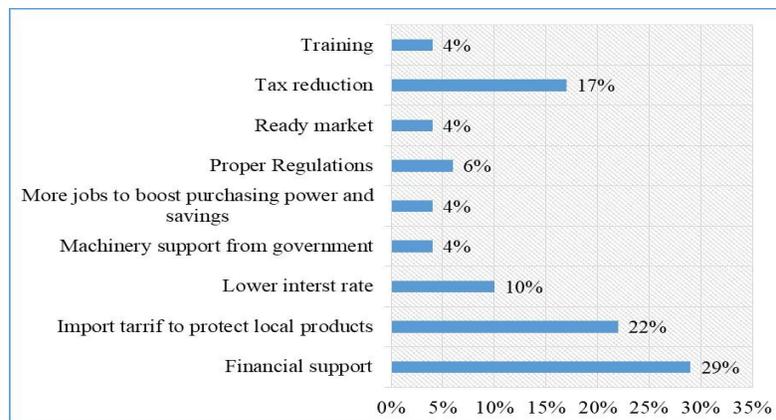


Figure 6. Type of government support needed.

The results on demographics indicated that most of the respondents were males, owners of SMEs, above 30 years old, and had a formal education up to the SHS level. However, a few had tertiary-level formal education. This has implications for managerial roles for SMEs who require higher academic knowledge for managerial and strategic roles. In line with the findings of Lamptey (2020), the results also indicated that most SMEs are sole proprietorships, which are typically owned and run by the same persons.

This may challenge the capacity to access external funding as knowledge for appropriate record keeping and accounting may be lacking. This explains why the results showed very little external funding assistance for the SMEs in both municipalities. Although they endeavor to fund their operations from internal sources, the results showed that the SMEs are aware of short to long-term financing available at the banks and other lending institutions. These entities are, however, still determining their capacity to meet the requirements of these financial institutions for long-term Finance.

The results indicated that SMEs are affected by information asymmetry because there is very little information on them to the public. Thus, they can only bargain for better interest rates when they meet the requirements for credit. They are, therefore, faced with the challenge of transaction costs, including interest rates. Although they indicated that they don't have much problem with managerial expertise, their level of education as well as limited employee numbers suggest that they may have to incur more costs for the services of experts who will assist them in accessing external funding. Confirming this, the results of the correlation analysis show that SIZE of the SME, as measured by the number of employees and SME age, were found to have a positive and significant relationship with SME financing.

The result of the regression analysis also found the size of SMEs to be statistically significant, thus positively impacting SME financing. This implies that as the SME grows and expands with increased employees, it also acquires experience that assists with qualification for external funding. A strong negative linear relationship was found between SME financing and the identified SME challenges, indicating, therefore, that a decrease in the challenges of access to credit, information asymmetry, managerial expertise, and transaction costs results in improvements in SME financing. Strategies such as improving credit access through targeted policies, enhancing financial transparency to reduce information asymmetry, providing financial education and support to SME owners, and reducing transaction costs through streamlined processes have been suggested to improve SME access to external funding (Beck et al., 2005; Carpentier et al., 2013; Leung et al., 2013).

Most SMEs showed signs of profitability, thus signalling the potential for external funding, as it indicates the ability to repay loans. This must, however, be a continuous occurrence for some period to provide the needed assurance for financial institutions providing external funding. A factor that is also necessary for access to external funding of SMEs is an up-to-date business plan. However, the result showed that the majority of the

SMEs do not have it, and for those who have it, 30% of the respondents indicated that it is up to date. This has implications for the preparedness of many SMEs in the municipalities regarding meeting the requirements for external funding. Besides funding from financial institutions, several avenues exist in the country for SME financing. Profitability signals the ability to repay loans and the potential for sustainable growth. SMEs with positive financial performance are more likely to reinvest profits into their businesses, expanding their operations and creating job opportunities (Brown et al., 2017).

Unfortunately, 72% of the respondents had not learned of such facilities. However, the few aware of such avenues mentioned local self-help schemes such as credit unions and churches. Others mentioned family and friends, private lenders, and the national body, the NBSSI. However, many of these sources may need more funds to meet the needs of all SMEs and the quantum of financing needed.

Therefore, these SMEs must explore the funding opportunities provided by the Ghana Venture Capital Trust Fund (GVCTF) and the Ghana Alternative Exchange (GAX) equity financing prospects. A deliberate government intervention is also crucial for SME growth in any country. It is not surprising, therefore, that the majority of the SMEs indicated that they require government support. Many of them stated direct financial support. This must, however, be well targeted in order not to have money wasted. For others, indirect support through import tariffs, tax reduction, lower interest rates, proper regulations, training, a ready market, machinery support, and a high employment rate was necessary. These interventions can protect local industries and facilitate their growth capacities.

CONCLUSION

The study explored the challenges of SME financing in two municipalities by discovering their characteristics, determining how the challenges influence financing, and exploring other funding opportunities available for SMEs. The findings suggested that most SMEs in both municipalities were sole proprietorships with inadequate capacity and expertise to fulfill basic requirements for external funding. There is also evidence to show that SMEs are faced with a lack of access to long- and short-term funds, inadequate managerial expertise, information asymmetry, and transaction costs. However, the results also show that given the needed assistance, the growth of an SME accompanied by an increase in employees (Size) and experience assists in decreasing the financing challenges.

The results also point to the fact that there are alternative funding sources, including equity sources provided by the alternative market of the Ghana Stock Exchange. The study concludes that although the financing challenges are real and numerous, stakeholder engagements and general governmental support can help push the growth and sustainability of SMEs in the two municipalities and the country.

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